Survey of Financial Literacy in Washington State: Knowledge, Behavior, Attitudes, and Experiences

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Survey of Financial Literacy in Washington State: Knowledge, Behavior, Attitudes, and Experiences

TECHNICAL REPORT 03-39

Commissioned by

Washington State
Department of Financial Institutions
Olympia, WA

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SESRC Project Profile

Title: Survey of Financial Literacy in Washington State: Knowledge, Behavior, Attitudes, and Experiences

Objectives: The purpose of this report is to provide a summary of survey and focus group activities

Methods: SESRC conducted surveys and focus groups to evaluate consumers' financial literacy and mortgage experiences in Washington State.

Timeframe: April 2003 through December 2003

Sponsor: Washington State Department of Financial Institutions
Olympia, WA

Contract: WSU OGRD Number 100962

Investigator: Danna Moore, Ph.D.

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TABLE OF CONTENTS

LIST OF TABLES

SURVEY OF FINANCIAL LITERACY IN WASHINGTON STATE: KNOWLEDGE, BEHAVIOR, ATTITUDES, AND EXPERIENCES

EXECUTIVE SUMMARY

BACKGROUND AND PURPOSE

The Washington State Department of Financial Institutions (DFI)[1] recently sponsored a financial literacy survey of Washington State residents. The purpose of the survey was to provide DFI information in developing an effective financial literacy role that provides useful education and information that assists consumers in making financial decisions. DFI enlisted the Social and Economic Sciences Research Center (SESRC) at Washington State University to administer the survey, conduct focus groups, and to report and interpret the results of the survey. DFI was particularly interested in investigating consumer experiences with lenders while entering into mortgage transactions in Washington State. This study utilized the American Association of Public Opinion Research guidelines for calculating and reporting sample element disposition and response rates for the survey. These results can be accepted as valid and representative of the populations surveyed.

Two groups of Washington State residents were asked to participate in the study. The first group included consumers who had loans with a lender that recently settled with the State of Washington in a large predatory lending case. This group is referred to in the study as the "victim pool"[2]. Focus groups were also conducted with individuals in the victim pool that had actually filed complaints with DFI, or the Office of Attorney General, regarding their recent mortgage transactions. DFI was interested in particular in learning about factors that may

[1] http://www.dfi.wa.gov/

[2] The Department's categorization of a "Victim Pool" is based upon the Agency's finding that a significant number of consumers within the analyzed pool were victims of predatory lending practices. However, the Department does not allege that every borrower within the pool was an actual "victim" or that every victim suffered the same degree of harm.

have contributed to this group's susceptibility to predatory lending practices and what the group felt might have protected them from such practices. The second group of consumers consisted of general population residents who were randomly selected and recruited, referred to in this study as the "general population pool". The two groups provided a unique opportunity to study differences in financial knowledge, behaviors, opinions, attitudes, and mortgage loan experiences.

In this research effort, it was necessary to integrate survey and focus group findings to more completely ascertain why individuals were susceptible. Focus group results complemented and supported survey findings by providing more in-depth information on mortgage experiences and how individuals interacted with particular lenders. It was through the focus groups that the nuances of the mortgage situation were revealed. This provided details not captured in survey interviews.

Previous research has generally demonstrated that financial literacy cannot be determined from simple, isolated measures of knowledge, experiences, or behaviors. Rather, a comprehensive depiction of an individuals' financial literacy, as an indicator of competency, must include a more complex analysis of these factors in aggregate. Financial knowledge, experiences, and behaviors are linked in a relational way. Financial experiences and behaviors together contribute to financial knowledge levels and gains in competency. Key to this assumption is the idea that with more experience and education, individuals become more sophisticated and competent in their financial dealings. The extent to which an individual demonstrates financial knowledge, more financial experience, and more positive protective type financial behaviors predicts the extent to which they would be more financially literate and more effective in their financial management.

Since financial literacy is not directly measurable, an alternative is to use proxy measures. In this study, scores or indices were devised for knowledge level, experience levels, positive and negative financial behaviors. Thus, from the survey responses, scores are calculated which indicated specific aspects of financial competences. Taken together, these scores represent the level of financial literacy that can be measured for individual respondents who participated in this study. These scores were further aggregated over the population subgroups for comparative purposes.

CONCLUSIONS:

Financial Knowledge

In the knowledge test questions answered correctly or incorrectly provided insight into the deficit the general population and the victim pool have in financial knowledge. Results showed that the financial score created from the test questions in the interviews varied across respondents. About 36% of respondents in both groups answered 7 or fewer of the 12 questions correctly; these are the least knowledgeable individuals in this study. The financial scores and the financial score ranges were significantly different between the two population subgroups. The victim pool was found to have statistically and significantly less levels of financial knowledge as compared to the general population. Almost 31% of the general population were able to answer the majority of financial questions correctly as opposed to 21.9% of victim pool consumers. These scores can be used to evaluate the relationships of knowledge to other measured variables that are crucial to explaining the differences between individuals in their financial outcomes and in their loans.

The two questions that were missed most often were measures of knowledge relative to bond markets and mutual funds (missed by 70% of the victim pool and 57% of the general population). While these two questions may seem irrelevant to determining individuals' knowledge relative to making mortgage loan decisions, these along with the other questions in the set of incorrectly answered questions, separates the “more financially knowledgeable” from the “less financially knowledgeable” for both population subgroups. The other questions frequently missed had to do with the financial topics of: reducing risk in investments, fees and costs of financial services products, understanding financial market operation and outcomes, and compound interest. Together these concepts represent the economics of financial markets. These questions taken together are relevant to measuring the basic knowledge needed by consumers to participate in financial markets.

A key aspect of defining a financial literacy program to help individuals harmed by or at risk for predatory lending should be to center on the most basic skills needed to participate competently in financial markets once it is determined what skills are missing or what types of financial practices are faulted. From this survey, of the knowledge questions answered incorrectly, the concept found lacking that is most troubling has to do with the concept of compound interest. In focus groups, individuals also told us they didn’t understand loans and interest rates. Compound interest as a financial factor is fundamental to understanding how, when interest rates change, money saved or invested is impacted and how it can generate wealth. It also serves as the basis of knowing the cost of borrowed money, loan payment structure, the time value of money, and the real cost of an asset over the lifetime of any loans used to acquire assets. If consumers lack knowledge of compound interest, they are naïve to evaluating and reading one of the most important market factors when involved with lenders. They potentially enter into loan agreements without understanding how much they are paying for borrowed money or the opportunity cost of the money they are investing.

Role of General Education

The role of general education -- as opposed to financial knowledge--in individual competency was also tested in this study. Comparisons of survey data showed that respondents who had at least one college degree were less likely to have a loan with harmful terms or to exhibit risk behaviors. Conversely, individual respondents with less than a college degree were more likely to have loans with more harmful terms, exhibit higher levels of risk behaviors, exhibit less positive protective behaviors and have less knowledge. These relationships held across both population subgroups in correlation tests. Attainment of at least one college degree is associated with more positive financial outcomes and served as a protective factor for individuals evaluated.

Role of Financial Experiences

The victim pool, like the general population, had a considerable amount of financial experiences. The victim pool exceeded the general population in having experiences in credit and loan markets, refinancing loans, consolidating credit card debt, and in taking out home improvement loans. However, the victim pool was very different from the general population in the extent of reporting experiences for long term planning, the ways they invest, save, invest for retirement, and the complexities of their financial investments. The victim pool tended to spend more now and save less for later. The general population, in strong contrast, had significantly more diverse financial experiences and exhibited more protective behaviors. The general population pool was more likely to have invested in the stock market, saved for long term financial goals, diversified their investments, put money into other retirement plans such as IRAs or other investments and prepared a long term financial plan. This would seem to demonstrate more effective money management exemplified by more reported savings and more complex retirement investing practices for general population respondents.

Role of Negative Financial Behaviors

Carrying the analysis of behaviors and experiences one step further by looking at the extent of participation in non-protective behaviors, it can be seen that the victim pool had a higher rate of risky behavior when compared to the general population. The victim pool engaged in what would be considered more negative, or non-protective behaviors. The largest differences between the two groups were for the questions, “Have you ever taken a cash advance on your Credit Cards?” (55.9% for the victim pool vs. 34.3% for general population) and “Have you ever used a payday lender?” (22.4% victim pool vs. 8.8% for the general population). In addition, during their current loan situations, a significant portion of the victim pool reported they had taken out multiple credit-consolidation loans to pay off credit card balances and had taken out more than one loan that used their home or property as collateral. Thirty-five percent of the victim pool indicated consolidating credit card debt into their home mortgage as the primary reason for their current home loan as compared to 3.7% of the general population. Twelve percent of the victim pool, as opposed to 1% of the general population, were also in the position of being ‘behind schedule in paying off mortgage loans. If financial experiences and behaviors are additive relative to their positive or negative classification, then the victim pool is considered less financially literate than general population consumers.

The degree to which more risky financial behaviors were undertaken by some survey respondents may suggest that these individuals are not gaining in financial literacy and are not learning or responding to the financial consequences of their actions. Consequently, the demonstrations of protective versus risky behaviors may be manifestations of abilities and competencies for money management. Successful personal money management helps reduce risk of financial loss and reduces the likelihood of extraneous events (such as job loss, disability, or economic downturns) causing sudden financial ruin.

How Consumers Shopped for Loans: Attitudes and Barriers

Another question of interest was whether consumers tried to comparison shop for loans. When asked about their most recent home mortgage or loan experience, 55.7% of the victim pool reported interest rates of over 10% as compared to the general population with less than 1% reporting interest rates of over 10%. Almost a quarter of the victim pool was paying interest rates in excess of 15%. Many consumers in the victim pool stated (in focus groups and during survey interviews) that they tried to comparison shop, but they found banks and some lenders unwilling to lend to them because of poor credit histories or other circumstances with their financial status. Others stated they were desperate and needed the money in a hurry. Fifty-five percent of the victim pool rated themselves as desperate when entering into their loan agreement as opposed to 13.6% of the general population pool. A few related that they felt their credit scores declined the more they approached lenders who then checked their credit. In the end, victim pool consumers went with lenders who would work with them.

When asked why their current lender was selected for their current loan, 31.5% of the victim pool indicated the most important reason as “It was easier to qualify for the loan” as compared with 3.7% of the general population giving this answer. For the general population, 37.2% stated the primary reason for selection was “low interest rates.” The description of the loan market as portrayed by the victim pool is a market that is very limited and one that has barriers. Thus, it becomes quite apparent that for individuals who face scarce access to credit and are in a state of desperation, an opportunistic appeal from a lender that they personally are eligible for available loans with lower costs or better terms can prove appealing.

Attitude is a factor that drives an individual’s demeanor and state of mind in making decisions during transactions. Attitude in combination with financial knowledge and behaviors may be synergistic in driving outcomes. It is clear from survey results that the victim pool consumers were in a disadvantaged position --relative to their state of mind--when compared to the general population. They had compromised attitudes (lower confidence, feelings of too high of a debt load, and feelings of desperation), lower financial knowledge, and less protective behaviors. Individuals in the focus groups said they were desperate and the lender knew this, and used it to the lender's advantage in the loan agreement transaction. Together these factors interact to further show deflated abilities and possibly reduced competency of the victim pool consumers to interact effectively with lenders and protect themselves.

Focus Group Findings

In the focus groups, we learned in particular, how victim pool consumers connected with lenders and how they made the decision that their particular loan was the best loan for them. Many victim pool consumers responded to either a direct solicitation that came through the mail as an advertisement or to a telephone call from an interviewer representing the mortgage lender. Some were told that the lender had lower cost or better interest rate loans available compared to the consumer's current loan. Some victim pool consumers cashed checks that were sent to them in the mail from the lender for an automatic loan. Others sought out the lender as they had a previous loan or a good experience with the lender. Still others found themselves with this lender because their loan had been sold to this company.

Profound to this connection is that consumers in the victim pool were customers to the lender. In focus group dialogues and survey comments, those in the victim pool stated that they believed lenders and lender employees knew of their desperation and used this knowledge to take advantage of them. This notion may not be totally unfounded when it is considered that the lender has access to customer lists with detailed customer loan information and customer characteristics to select and screen individuals for solicitation. However, it needs to be kept in mind that, in focus groups, victim pool consumers readily admitted they voluntarily followed-up with lenders after the solicitation or contact and entered into loans. Some say they took out loans they didn't really need. This suggests these consumers are primarily reactionary instead of being proactive in planning in their finances. They are not aware of their own personal vulnerabilities and lack the knowledge needed to keep from being susceptible in engaging in loans with disadvantageous terms. The lender's contact was intended to make customers aware loans were available and that they were eligible for a new loan or a refinance. This type of contact by the lender proved to be effective, as many focus group participants indicated they followed through to further contact the lender at local offices and enter into loan transactions.

Respondents telling us that the lender knew they were desperate and had credit problems, raises the question of lender accountability. Lenders have detailed information on customers, and a history of customer repayment of loans—this provides for a fairly accurate picture of customer financial ability. Together this information is predictive of whether individuals can successfully repay the loans. One of the most common features grouping victim pool consumers is their own rating of themselves as having compromised credit and this being associated with loans that had non-beneficial or harmful terms. Some respondents articulated they were treated unfairly or discriminated against because of their credit standing.

Other measures from the survey and comments in focus groups also suggest that many of the consumers in the victim pool were naïve and lacking in competency even though they had considerable financial experience and exhibited a moderate level of positive financial behaviors. Naïve individuals lack the skill to evaluate whether they can afford a particular loan or evaluate if they are improving their financial circumstances. Relative to saving decisions, these consumers lacked appreciation of how the main factor, compounding and interest, grows their money. Relative to loans, these consumers didn't seem to understand how interest rates relate to what they could afford. Nor did they know how much of a premium in interest rate percentage points they should consider and accept as a tradeoff for their poorer credit rating. Thus, for less knowledgeable individuals, it is questionable how much interest rates can serve as a signal or stimulus to modify behavior or to make prudent financial decisions. For mortgage decisions, it is questionable whether less knowledgeable individuals are responsive to interest rate levels as signals to accept or reject a loan or for determining whether they are getting a good deal.

Towards a Financial Literacy Program---Learning Styles, Useful Tools

The study results of knowledge score and behavior scores strongly supports the need for an education program that teaches financial concepts to consumers and provides mechanisms that help consumers make informed decisions about engaging in loans. Survey responses and the focus group findings together exemplify that the victim pool and the general population respondents who were less knowledgeable didn't understand interest rates, loans, or how loans work. This study found that knowledge score overall and knowledge level on specific items were important to individual financial experiences and outcomes in mortgage loan markets in Washington. Less knowledge on financial knowledge items, less financial experiences, less frequency of protective financial activities, and engagement in "risky" or negative financial behaviors compositely measures financial literacy and explains the variation in mortgage experiences with lenders and the occurrence of engaging in loans with less beneficial or more financially harmful terms.

This study indicates a strong need for a financial education program for development of tools for consumers to evaluate loans and investments and their impact on personal finances. In focus groups and in the survey, respondents stated that they didn't understand how interest on loans worked, and that at the time they entered into loan agreements they didn't know what they were getting into financially. Survey and focus group findings for victim pool consumers showed interest rate[3] was the loan factor most associated with harm. Interest rate as a factor in loan decisions is not well understood by many respondents. With these results in mind, the development of useful types of tools might include: an agency-sponsored computer website hosting a loan scenario calculator, consumer checklists, and guidelines for accepting and rejecting loans. Consumers accessing such tools could enter loan terms, home appraised value, and their income into the calculator and it could display relative loan information over time such as monthly, yearly, and total interest payments, monthly, yearly and total payout towards principal. Specifically, the development of guidelines for the amount of fees that should be expected and guidance on thresholds of monthly payment to monthly income might prevent consumers from entering into loans they can't afford.

This study also suggests that there is a general low level of public awareness about the potential for harm from unfavorable mortgage terms. Lack of consumer awareness to the potential for harm from loan terms specified by the lender, is an important aspect of susceptibility for DFI to consider. Extraordinary loan terms were pervasive, particularly for the victim pool; this had measurable impacts on their personal finances. This perhaps warrants consideration of an awareness campaign to complement an educational program for preventing consumer harm.

In addition to the type of information to provide, an equally important aspect of the feasibility of a financial literacy program is to determine how best to offer a financial literacy program to the public and to those who need it. An important consideration is what venue would be most viable? When asked how they learned about money management, the top three answers in both groups

[3] Not all potential harms (i.e., discount points or multiple simultaneous loans) were measured in this survey or study.

were: personal financial experiences; friends and family; and high school and college courses. Less than 1% in both groups got their knowledge from financial institutions. When asked how they preferred to learn, almost a third of survey respondents chose the Internet or computer programs as the way they liked to learn, although this style might not work for everyone. Many respondents also indicated community based informational seminars in the community as a preferred learning method. The survey responses showed consumers somewhat split in whether they preferred individual-based modes or group-based modes. Consumers might demonstrate more interest and follow through with educational programs if components are offered and presented in a variety of modes. Educational outcomes may be achieved at higher rates and be more effective if consumers have a choice in how they learn them. Other important characteristics of an effective financial educational program would be to allow participants to navigate programs at their own pace, and provide interaction in ways they prefer.

Although study results show that a literacy program would be very beneficial, there remains concern over the victim pool respondents' lack of responsibility and effort, as demonstrated in this study, and whether they would actually participate in financial literacy programs if they were offered. DFI's challenge with these study findings and going forward with an educational program will be to motivate participation.

SURVEY OF FINANCIAL LITERACY IN WASHINGTON STATE: KNOWLEDGE, BEHAVIOR, ATTITUDES, AND EXPERIENCES

1.0 INTRODUCTION

1.1 Background and Purpose

The Washington State Department of Financial Institutions (DFI) recently sponsored a financial literacy survey of Washington State residents. The purpose of the survey was to provide DFI information in developing an effective financial literacy role that provides useful education and information that assists consumers in making financial decisions. DFI enlisted the Social and Economic Sciences Research Center (SESRC) at Washington State University to administer the survey, conduct focus groups, and to report and interpret the results of the survey. DFI was particularly interested in investigating victim pool consumers' experiences with lenders while entering into mortgage transactions in Washington State.

Two groups of Washington State residents were asked to participate in the study. The first group included consumers who had loans with a lender that recently settled with the State of Washington in a large predatory lending case. This group is referred to in the study as the "victim pool"[4]. Focus groups were also conducted with individuals in the victim pool that had actually filed complaints with DFI, or the Office of Attorney General, regarding their recent mortgage transactions. DFI was interested in particular in learning about factors that may have contributed to this group's susceptibility to predatory lending practices and what the group felt might have protected them from such practices. The second group of consumers consisted of general population residents who were randomly selected and recruited to the study from a Random Digit Dial (RDD) telephone frame of households in Washington, referred to in this study as the "general population pool". The two groups provided a unique opportunity to study differences in financial knowledge, behaviors, opinions, attitudes, and mortgage loan experiences.

[4] The Department's categorization of a "Victim Pool" is based upon the Agency's finding that a significant number of consumers within the analyzed pool were victims of predatory lending practices. However, the Department does not allege that every borrower within the pool was an actual "victim" or that every victim suffered the same degree of harm.

1.2 Survey Methodology

Sample: The sample consisted of 1423 adult Washington State residents who had the most knowledge of their household's finances. The sample frame was stratified with 891 individuals from the victim pool and 532 Random Digit Dial (RDD) general population pool members interviewed. Thirty-one randomly recruited consumers from the victim pool participated in four focus group sessions.

Techniques: A telephone survey was administered to Washington state residents. For the victim pool, an advance pre-notice letter was mailed at the beginning of data collection. The average length of the telephone interview was 20 minutes. Focus group sessions were held with individuals in the victim pool that lasted 1.5 hours in various cities in Washington.

Field Dates: May 23 to August 21, 2003

Margin of Error: Two population groups were considered in this study. The population for the victim pool is the listing of consumers who had loans with a lender who settled with Washington State in a large predatory lending case. There was no sampling and thus no sample error exists for this portion of the study. For the general population, a Random Digit Dial RDD telephone sample frame was used. For the completed interviews in this group (n=532), there is ± 5% sample error at the 95% confidence level. That is, if all households in Washington had been interviewed, there is a 95% chance the survey results would be within ±5% of the population estimate.

Data Collection: For the survey, calls were made during the weekday evenings, weekdays, and weekend evenings. Trained interviewers under WSU supervision conducted all interviews. A minimum of 10 call attempts were made for each call record in the sample frames. Five percent of interviews were monitored for quality assurance. Conversion interview techniques were used for mild refusal cases. Focus group discussions were transcribed into record.

Survey Questions: Three survey interview questions were of open-ended text format, which allowed respondents to answer in their own words. Responses to open-ended questions were categorized and coded to present in this report.

Knowledge test questions were true and false or one word response questions which were scored as correct or not. Behavior questions were either yes/no questions or categorical questions. Behavioral questions responses were coded to "Always/Often, Sometimes, or Never" during the interview. These responses were recoded to dichotomous (0,1) variables to calculate scores. Questions with numerical answers were summarized with mean, median, mode, and range reports. Numeric answers were categorized to ranges.

Focus Group Questions: Focus group questions were general and were asked open-ended. Focus group dialogue was summarized to themes to categorize findings.

For all respondents, attainment of at least one college degree was positively and significantly correlated with higher levels of financial knowledge, higher levels of financial experience, and higher levels of positive protective behaviors.

2.0 SURVEY FINDINGS

2.1 Respondent Profiles

For this study it was hypothesized that education may play an important role in explaining why some individuals were taken advantage of by lenders. Therefore, in interpreting these findings, it is important to keep in mind the characteristics of the people actually interviewed. Presented in **Table 1** is a demographic profile of the respondents for the survey. The sample is arranged into three segments for the purposes of this report:

- Overall: Base sample of all completed survey interviews from both sample frames in Washington State.
- Victim pool: Completed interviews with Washington residents who had loans with a lender that recently settled with the State of Washington in a large predatory lending case. The sample frame was furnished by DFI to SESRC.
- General Population RDD : Completed interviews with Washington residents (general population) were randomly selected from Random Digit Dial (RDD) telephone frame. This commercially purchased sample frame was from Genesys, Inc.

Demographic variables are often the most important factors for explaining causal relationships in population studies; therefore they are usually the first variables to be tested when studying to what extent groups of people might be similar. For some of the demographic variables tested, statistically significant differences were found between population subgroups with the presented categorical response categories and are indicated in **Table 1**. For some of these variables, because the data is spread across multiple response choices, relationship differences may not show. Stronger differences may be detectable if the data is recoded to a smaller subset of responses to make them dichotomous (0,1). This was the case with the education variables, which were recoded to represent the attainment of a college degree or not.

Table 1. Demographic characteristics of respondents.

		Overall	Victim	General
	Number in sample	(N=1361)	(n=862)	(n=499)
Gender				
	Male	45%	46%	42%
	Female	55%	54%	58%
Age				
	18 to 29	9%	5%	15%
	30 to 39	19%	21%	17%
	40 to 49	32%	36%	23%
	50-59	23%	26%	19%
	60-69	10%	10%	12%
	70+	6%	3%	12%
Marital status				
	Married	68%	71%	63%
	Living with a partner	7%	6%	8%
	Never married	6%	4%	10%
	Divorced or separated	13%	15%	11%
	Widowed	5%	4%	7%
	Other	1%	1%	1%
Race/Ethnicity***				
	White	84%	84%	84%
	Black or African American	4%	6%	2%
	American Indian or Native American	2%	3%	1%
	Native Hawaiian or other Pacific Islander	1%	1%	1%
	Asian	1%	1%	2%
	Hispanic	3%	3%	5%
	Other	2%	2%	3%
Household size**				
	1	13%	10%	17%
	2	33%	28%	41%
	3	19%	20%	17%
	4	20%	24%	14%
	5	9%	10%	6%
	6	4%	5%	3%
	7	3%	3%	2%

		Overall	Victim	General
Poverty level***				
	Less than equal to amount	20%	17%	25%
	Greater than amount	78%	82%	70%
Respondent education***				
	First through 8th grade	1%	1%	0%
	Some high school, no diploma	2%	2%	2%
	High school graduate or GED	22%	24%	20%
	Some college but no degree	32%	35%	26%
	Associates degree	11%	13%	9%
	College graduate	21%	17%	29%
	Advanced degree	10%	8%	13%
Spouse/partner education***				
	First through 8th grade	1%	1%	1%
	Some high school, no diploma	3%	4%	2%
	High school graduate or GED	25%	27%	21%
	Some college but no degree	15%	18%	11%
	Associates degree	9%	10%	7%
	College graduate	15%	14%	18%
	Advanced degree	6%	3%	10%
	No spouse/partner	25%	23%	29%
Active military status*				
	Yes	1%	<1%	2%
	No	99%	99%	98%
Income**				
	<$25,000	13%	8%	20%
	$25,000-$54,999	35%	39%	29%
	$55,000-$75,000	22%	25%	16%
	>$75,000	23%	24%	23%
Language				
	English	98%	98%	98%
	Spanish	1%	1%	1%
	Other	1%	2%	1%
Health insurance coverage				
	Yes	83%	82%	84%
	No	16%	17%	15%

		Overall	Victim	General
Education of parents***				
	None	1%	1%	0%
	First through 8th grade	6%	5%	9%
	Some high school, no diploma	5%	6%	4%
	High school graduate or GED	42%	45%	36%
	Some college but no degree	9%	10%	9%
	Associates degree	3%	3%	4%
	College graduate	18%	16%	21%
	Advanced degree	8%	6%	10%
Current support of your or your spouse's parents				
	Yes	6%	6%	5%
	No	94%	94%	94%
Region**				
	North-East	12%	10%	15%
	South-East	3%	0%	7%
	North-West	18%	19%	17%
	Seattle	23%	21%	25%
	Tacoma	22%	26%	14%
	South-West	20%	22%	17%
Recoded variables:				
Respondent education recoded***				
	No college degree	57%	62%	49%
	College degree	43%	38%	52%
Spouse/partner education***				
	No college degree	59%	64%	50%
	College degree	41%	38%	50%
Education of parents recoded***				
	No college degree	68%	71%	63%
	College degree	32%	28%	37%

Chi square significance tests at the 95% confidence level, ***p≤ .01, ** p=≤ .05, *p≤ .10
N.S.= no statistical significance in differences.

Only the recoded demographic variables for education were evaluated for this report. Limited correlation tests were conducted to find if there were relationships between college degree attainment and mortgage outcomes. The correlation coefficient r measures the degree to which two variables vary together and the intensity of this association. A positive value of r shows that two variables have a linear association and vary in the same direction. A negative value of r indicates two variables have an inverse relationship or are vary in the opposite direction. (The parameter p represents the probability and signifies the power of the test, thus a p value less than or equal to .05 is the level of confidence we have that the estimated value lies within the critical limits of the true population estimate). Education of respondent, spouse, and parents as explanatory variables, were found to be significantly different between population subgroups. All relationships and signs on correlation coefficients were in the directions expected. For all respondents, attainment of at least one college degree was positively and significantly correlated with higher levels of financial knowledge (r= .23, p= .00), higher levels financial experience, and higher levels of positive protective behaviors (r=.21, p=.00). Attainment of college degree was negatively correlated with outcomes of loans with more harmful terms (r = -.13, p= .00). Attainment of at least one college degree was negatively correlated with higher levels of risk behavior (r = -.11, p= .00).

2.2 Assessment of Financial Knowledge and Literacy

The victim pool when compared to the general population had statistically significantly different levels of financial knowledge. The victim pool had less knowledge overall and less knowledge on specific financial items that critically impact consumers' loan decisions.

Twelve financial questions, shown in Table 2, were used to measure respondent knowledge and to calculate a financial knowledge score. For each respondent, the score is the sum of the number of questions answered correctly. As shown in Table 3, the financial scores for the population subgroups are categorized by the percentage of respondents within the three financial score ranges. The financial scores range from zero to 12, with a mean score for all respondents of 8.04, which is 67% of respondents giving correct answers. A comparison between the subgroups shows a statistically significant difference in knowledge levels based on this set of questions. On average, the victim pool scored 7.95, which is, statistically, a significantly lower score than the general population group score of 8.21. For most questions, a larger percentage of the general population respondents answered questions correctly when compared to the victim pool. However, on three questions in particular, the victim pool had a slightly higher percentage of respondents with correct answers. These questions asked about costs related to length of loan period, repeated refinancing fees, and credit card interest rates. Some of this anomaly may be attributed to the sample selection criteria of victim pool consumers who had mortgages and many therefore had recent loan refinance exposure.

As shown in Table 3, the difference in knowledge between population subgroups occurs at each end of the scoring spectrum and on specific questions. For the three financial score categories (low, medium, and high) there were 5% more victim pool respondents in the lowest score category and 9% less victim pool respondents in the highest score category. The largest difference was a 9 percentage points spread for those in the highest score category; that is, 30.9% of the general population compared to 21.9% of the victim pool were able to answer the majority of financial questions correctly.

Evaluating the questions missed most often provides the opportunity to see how knowledge differs between low and high scoring respondents. Questions with 30% or more respondents answering incorrectly were the most difficult. Respondents missing these would be considered as having less knowledge than average (a grade of C or less). Both groups found the following six questions as the most difficult.

- What happens to bond prices when interest rates go up? (Bond prices fall)
- A no load mutual fund involves no sales charges or other fees. (False)
- Over a 40-year period which do you think gave the highest returns? (Stocks)
- Mutual funds pay a guaranteed rate of return. (False)
- When an investor diversifies his investments, does the risk of losing money increase or decrease? (Decreases)
- With compound interest you earn interest on your interest as well as on your principal. (True)

Together these six questions, when answered correctly by respondents, represent more breadth of knowledge in financial markets.

Table 2. Percentage of respondents answering financial knowledge test questions correctly.

Question wording	Correct Answer	Percent Answering Correctly: Overall	Victim Pool	General Pop	
Making late payments on you bills can make it more difficult for you to take out a loan.	True	96.8	97.3	95.8	NS
You could save money in interest costs by choosing a 15 yr rather than a 30 yr mortgage.	True	94.5	95.7	92.3	**
Creditors are required to tell you the APR you will pay when you get a loan.	True	94.2	94.0	94.6	NS
Repeatedly financing loans over time results in added fees.	True	88.2	90.4	84.4	***
The APR is the most important thing to look at when comparing credit card offers.	True	82.3	82.3	82.2	NS
Over a 40 year period which had the highest variation in returns?	Stocks	80.0	78.8	82.1	NS
With compound interest you earn interest on your interest as well as on your principal.	True	70.6	67.1	76.4	***
When an investor diversifies his investments, does the risk of losing money increase or decrease?	Decreases	69.6	66.7	74.4	***
Mutual funds pay a guaranteed rate of return.	False	66.1	61.5	73.9	***
Over a 40-year period which do you think gave the highest returns?	Stocks	61.0	58.7	64.9	**
A no load mutual fund involves no sales charges or other fees.	False	43.1	42.6	43.9	NS
What happens to bond prices when interest rates go up?	Bond prices fall	36.7	33.1	43.0	***

Chi square significance tests at the 95% confidence level, ***p≤ .01, ** p=≤ .05, *p≤ .10
N.S.= no statistical significance in differences.

Table 3. Summary of respondents' financial knowledge scores by category.

Knowledge Score	Overall	Victim Pool	General Pop	Significance
Mean number correct	8.04	7.95	8.21	***

Categories	-----Percentage Respondents---			Chi Sq	P-value
1- 7 correct	36.3	38.2	33.1	13.49	.00
8-9 correct	38.5	39.6	36.1		
10-12 correct	25.2	21.9	30.9		

Chi square or t significance tests at the 95% confidence level, ***p≤ .01, ** p=≤ .05, *p≤ .10
N.S.= no statistical significance in differences.

2.3 Learning About Money Management

Respondents reported that the most effective way to learn about managing their money was through primarily personal modes such as the Internet or computer programs and video presentations they could view at home.

The survey information provides descriptions of how respondents learned about managing money and the ways they find most effective to learn about finances. As in other studies, respondents tell us that the most important ways they learned about managing their money were through personal financial experiences (62%), friends and family (16%), and high school and college courses (8%). Both the victim pool and the general population rank these alternatives in the same order. There were slight differences in frequencies reported for the two leading categories: The victim pool was more likely to report personal experiences, while general population respondents were more likely to report friends and family as the way they learned.

Turning to learning preferences, respondents were asked to think about their time and how they like to learn. They were asked to rate 6 ways of learning to manage money as most effective for them, personally. Respondents reported that the most effective way to learn about managing their money was through primarily personal modes such as the Internet or computer programs (31%) and video presentations they could view at home (23%). Following these, more group-based type learning modes were selected, but to a lesser extent. These modes included informational seminars (16.5%) and formal courses at a school in their community (15%). There were some differences between population subgroups in learning mode selection. As first choices, the victim pool and the general population express the same preferences for the Internet or computer programs (31% and 28%, respectively). As a second choice, more individuals in the victim pool reported video (23%) whereas the general population selected informational seminars (19.6%) as most effective. The third choice selected by the victim pool was informational seminars in the community (16.5%) whereas the general population selected video (16%).

2.4 Financial Experiences and Behaviors

Specific Experiences and Behaviors As Measures of Financial Sophistication

The general population compared to the victim pool was more likely to:

- **Invest in the stock market,**
- **Save for the long term,**
- **Spread their investments,**
- **Invest in retirement plans, IRA's, etc., and**
- **Prepare long-term financial plans.**

A primary interest in this study was to determine how financially literate or financially sophisticated consumers take on financial experiences and behaviors and whether there were differences in experiences and behaviors between individuals in the victim pool and individuals in the general population. Individuals are considered financially literate if they are competent and can demonstrate they have used knowledge they have learned. Financial literacy cannot be measured directly so proxies must be used. Literacy is obtained through practical experience and active integration of knowledge. As people become more literate they become increasingly more financially sophisticated and it is conjectured that this may also mean that an individual may be more competent. Financial sophistication and competence imply extensive development of practical knowledge and refinement of knowledge through experience and education together. To obtain these measures, respondents to the survey were asked whether or not they had experienced 14 specific financial experiences (listed in Table4).

Six of the 14 experiences were very common to the majority (better than 73%) of all respondents and these included:

- Having a checking or savings account,
- Having ever bought a house,
- Having a credit card (currently),
- Having ever reviewed their credit report to have an idea of their credit rating,
- Having ever refinanced a mortgage, and
- Reconciling or balancing their checkbook every month.

Table 4. Percentage of respondents reporting financial experiences.

	Percentage Reporting Yes or Done Always/Often/Sometimes			
Experiences/Behaviors	Overall	Victim Pool	General Pop	
Experience measured as yes/no:				
Do you currently have a checking or savings account?	98.0	98.7	96.8	***
Do you currently have a credit card?	85.0	84.8	85.4	
Have you ever bought a house?	90.4	97.9	77.4	***
Have you ever reviewed your credit reports to get an idea of your credit rating?	77.7	85.1	64.9	***
Have you ever refinanced a mortgage?	74.4	87.9	36.6	***
Do you reconcile or balance your checkbook every month?	73.5	71.5	76.9	**
Do you save for long-term goals such as education, a car, a house, or a vacation?	64.7	59.5	73.7	***
Have you ever calculated your net worth?	62.3	59.9	66.6	***
Do you participate in an employer's 401k or other sponsored retirement plan?	60.7	64.7	53.6	***
Do you currently have money spread across more than one type of investment?	56.9	53.2	63.4	***
Have you ever taken out a loan to pay for home improvements?	50.6	61.1	32.2	***
Have you ever prepared a long-term financial plan?	45.7	42.6	51.1	***
Do you put money into other retirement plans such as IRA or other accounts?	39.4	36.2	46.5	***
Do you invest in stock market outside of employer sponsored retirement accounts?	29.4	22.0	42.3	***

Chi Square Significance tests at the 95% confidence level indicated by: ***$p \leq .01$, ** $p = \leq .05$, *$p \leq .10$
. N.S.= no statistical significance in differences.

It should be noted, that for the item "having ever refinanced a mortgage" only 36.6% of the general population have had this experience, whereas for the victim pool, more than 87% had this experience.

Other fairly common experiences (for over 50% to 65%) reported for both subgroups were:

- Saving for long-term goals such as education, a car, a house, or a vacation,
- Having ever calculated their net worth,
- Participating in an employer's 401k or other sponsored retirement plan, and
- Having money spread across more than one type of investment (currently).

Four of the 14 financial experiences are the least reported (50% or less) by all respondents and include:

- Having ever taken out a loan to pay for home improvements,
- Having ever prepared a long-term financial plan,
- Putting money into other retirement plans such as IRA or other accounts, and
- Investing in the stock market outside of employer sponsored retirement accounts.

When the victim pool was compared to the general population very strong significant differences emerged in the levels of engagement for specific financial experiences. The victim pool was twice as likely as the general population consumers to have ever refinanced their mortgage. They were also more likely to have taken out a loan for home improvements, checked their credit report, and bought a house. For the victim pool, the least two reported experiences were:

- Investing in the stock market outside of employer sponsored retirement accounts (22%), and
- Putting money into other retirement plans such as IRA or other accounts (36.2%).

The general population compared to the victim pool was more likely to have invested in the stock market, saved for long term financial goals, spread money (currently) over more than one kind of investment, put money into other retirement plans such as IRAs or other investments, and prepared a long-term financial plan. For general population respondents the least two reported experiences were:

- Having ever taken out a loan to pay for home improvements (32.2%), and
- Having ever refinanced a mortgage (36.6%).

In summary, for financial experiences, the victim pool was more likely to refinance loans and take out home improvement loans and less likely to have diversified long-term type investments or savings when compared to the general population. For the general population, the levels of reporting particular financial experiences and behaviors are indicative of more thoughtful and decisive long term planning.

Respondent Practice of Positive Financial Behaviors

To determine more about financial literacy, two classes of behaviors were asked about: positive behaviors and more negative type behaviors. Respondents were first asked to rate the extent to which they practiced 9 financial behaviors. The behaviors reported in **Table 5** are classified as positive type behaviors that are protective for a respondent if they are accomplished. Positive behaviors can be interpreted as a skill that the more they are practiced the more protective or wealth generating their effect financially. Protecting oneself financially can be explained by activities that increase awareness such as monitoring of finances, active management of accounts, or increased investments. General goals associated with protective behaviors are either preventing decline of one's wealth or increasing one's wealth. The demonstration and level of positive behaviors is an indicator of increased or increasing financial literacy and sophistication.

Table 5 provides the rank order of the frequencies of respondents with positive behaviors. Over both populations, four of the behaviors have a strong frequency of occurrence and were reported by more than half of the respondents. The most frequently reported behaviors by both subgroups were:

- Paying bills on time, and
- Tracking expenses.

The least reported protective behaviors for both subgroups were:

- Reading about personal finance, and
- Checking background qualifications of persons giving financial advice.

General population respondents were 1.6 times more likely than victim pool respondents to report paying credit card balances in full each month.

For all but two behaviors in **Table 5**, the general population has a larger percentage of respondents reporting protective behaviors as occurring Always, Often, or Sometimes. The two behaviors that the victim pool reported more often than the general population were:

- Comparing offers before applying for a loan, and
- Comparing offers before applying for a credit card.

Table 5. Percentage of respondents exhibiting positive financial behaviors.

	Percentage Reporting Done Always/Often/Sometimes			
Behaviors	Overall	Victim Pool	General Pop	
Behavior measured as (Always/Often/Sometimes):				
How often do you pay all your bills on time?	89.6	87.2	93.6	***
How often do you track your expenses?	67.5	63.5	69.2	NS
How often do you use a spending plan or budget?	54.5	54.1	55.2	NS
How often do you compare offers before applying for a loan?	53.9	54.4	52.8	NS
How often do you save or invest money out of each paycheck?	45.7	41.7	52.8	***
How often do you compare offers before applying for a credit card?	45.1	46.7	42.2	NS
How often do you pay credit card balances in full each month?	38.8	24.6	62.9	***
How often have you checked background qualifications such as education, licenses, or certifications of the person giving you financial advice?	21.5	18.7	26.5	***
How often do you read about personal money management?	19.2	18.0	21.3	NS

Chi Square Significance tests at the 95% confidence level indicated by: ***p$\leq$.01, ** p=$\leq$.05, *p$\leq$.10. .
N.S.= no statistical significance in differences.

For the general population subgroup, respondents were 1.6 times more likely to report paying credit card balances in full each month and this is the behavior that is most different between subgroups. The protective financial behaviors with the greatest differences between the two subgroups were:

- Paying credit cards balances in full each month,
- Saving or investing money out of each paycheck,
- Checking background qualifications of the person giving them financial advice, and
- Paying all your bills on time.

These four behaviors together are qualities associated with individuals that rigorously track and manage their finances.

Respondent Practice of Negative (or Risk Inducing) Financial Behaviors

The set of behaviors reported in **Table 6** can be classified as negative or more risk inducing; and these have costs to consumers. High fees per transaction, high interest rates for very short terms are examples of these costs. Risk inducing behaviors are defined as behaviors that predict cost, wealth reduction, or probability of financial loss the more they occur. In other words, they are non-protective. A higher frequency of risk behaviors is an indicator of low financial literacy and the lack of knowledge or failed learning associated with the financial costs of a behavior.

The victim pool showed a higher tendency towards more risky behaviors than the general population--
- **Taking advances on their credit cards (55.9 vs. 34.3%), and**
- **Using payday lenders (22.4% vs. 8.8%)**

All respondents were asked about 6 specific risky behaviors. For almost all non-protective behaviors (**Table 6)**, the victim pool showed a statistically higher tendency towards risky behaviors than the general population. The largest differences, between subgroups, occurred for the behaviors “Have you ever taken a cash advance on your credit cards?" (55.9% for the victim pool versus 34.3% for the general population) and "Have you ever used a payday lender for a one to two week loan under $500?"(22.4% versus 8.8%, respectively.) The least discerning difference between the two population subgroups occurs for the behavior "Have you ever used a check casher?" General population consumers were less likely than the victim pool to engage in non-protective financial behaviors. A composite risk score –using numeric range 0-6--was generated to measure the overall tendency of risk for individuals and for the population subgroups. The victim pool had a composite risk score of 1.8, which is significantly higher than the composite risk score of 1.2 for the general population. The victim pool had about 26.7% of respondents with a risk score of 3 or more. In contrast, the general population consumers had about half as many showing risk behaviors. That is, only 12.2%, of the general population had a risk score of 3 or more.

Table 6. Rank order of percentage of respondents exhibiting negative (risk inducing) financial behaviors.

`	Percentage Reporting Yes, Have Done			
Behaviors	Overall	Victim Pool	General Population	
Have you ever had a car title loan where the lender holds the title to your car until the loan is repaid?	48.9	50.4	45.8	*
Have you ever taken a cash advance on any of your credit cards?	48.0	55.9	34.3	***
Have you ever used a payday lender for a one to two week loan under $500?	17.4	22.4	8.8	***
Have you ever had a rent to own transaction as a way to buy an appliance or furniture?	13.8	16.7	8.9	***
Have you ever used a check cashier?	13.2	14.0	11.9	NS
Have you ever used a pawn shop for a small loan while the shop holds an item of yours as collateral until you pay back the loan?	13.0	15.4	8.4	***
Did you cash (air) check? [a]	10.1	13.2	4.8	***
Number of respondents	1359	862	497	

[a] Respondents answering yes to question: In the last 12 months have you ever received a blank check from your credit card company or a printed check from a finance company offering you credit if you complete the check? (Such checks are sometimes known as live checks or air checks)

[b] Chi Square Significance tests between population subgroups at the 95% confidence level indicated by: ***p$\leq$.01, ** p=$\leq$.05, *p$\leq$.10. N.S.= no statistical significance in differences.

2.5 Attitudes and Opinions

Overall, the victim pool -- because they were less confident in their abilities, had strong feelings that their debt was too high, and had desperate financial need --were at a great disadvantage, compared with general population consumers, when interacting with lenders.

All respondents were asked to give their opinions on three items related to their abilities and mental attitude about aspects of their finances. These are reported in **Table 7**. The first of these attitudes had to do with respondent's confidence levels when entering into financial transactions with creditors or lenders. All were asked "How confident are you in your ability to understand the loan terms and ask questions about the loan factors that will impact your financial circumstances?" Results showed the victim pool, statistically, significantly less confident than the general population when entering into financial transactions. About 10% and 8% more of the general population consumers were "completely confident" and "very confident" when compared to the victim pool at the higher end of the response scale. At the other end of the measurement scale, about 4% and 14% more of individuals in the victim pool rated themselves as "not at all confident" and "somewhat confident" compared to the general population pool.

Table 7. Attitudinal measures for respondent confidence, debt, and financial need.

	Percentage of Respondents Indicating			
Attitudes	Overall	Victim Pool	General Pop	
"Completely" or "Very Confident" in own ability to understand loan terms and ask questions about loan factors that will impact your financial circumstances.	48.7	42.6	59.9	***
"Yes": feels debt load is too high.	54.3	68.2	30.3	***
"Somewhat" or "Very Desperate" description of financial need at time when entered into loan agreement with [lender].	45.5	55.0	13.6	***

Chi Square Significance tests between population subgroups at the 95% confidence level indicated by: ***p≤ .01, ** p=≤ .05, *p≤ .10. N.S.= no statistical significance in differences.

The next attitudes measure measured respondents' perceptions regarding their debt load and financial need. Individuals in each subgroup were significantly different in how they rated their debt and their financial need. About 68% of the victim pool indicated their level of debt was "too high". This is 38% more than the 30.3% of the general population who rated themselves this way. Also shown in Table 7, individuals in the victim pool were 4 times more likely to rate themselves as in desperate financial need. More than half of all respondents in the victim pool considered themselves to be in desperate financial need, whereas less than one quarter of general population respondents considered themselves in this position.

Taken together, these three attitudes described the state of mind victim pool consumers had when engaging in loan activities with lenders. Overall, the victim pool --because they were less confident in their abilities, had strong feelings that their debt was too high, and had desperate financial need --were at a great disadvantage, compared with general population s, when interacting with lenders. This information implies that the victim pool consumers' state of mind placed them more at risk, than the general population, of being susceptible and tractable to lender strategies aimed at controlling or influencing their loan transactions.

2.6 Experiences with Lenders and Creditors Obtaining Credit

Fifty-seven percent of respondents in the victim pool had been turned down for credit compared to 23.5% of the general population.

One of the main goals of this study was to evaluate individuals' experiences with creditors and lenders in order to describe financial outcomes and relate this to educational needs. Most respondents to this survey were experienced borrowers with better than 98% or 1,313 reporting they have had a credit card, bought a house, refinanced, or had a home improvement loan. Less than 4% of respondents had not had any credit or loan experiences. Most of those who had not had credit experience were general population sample members.

All respondents were asked if they had been turned down for credit or not given as much credit as they had applied for at some point in the last 5 years. For all respondents answering this question, just more than half (55%, n=747) had never been turned down for credit. Further, 20% of these respondents say they had never applied for credit, while 80% say they had never been turned down when they have sought credit.

Correspondingly, just less than half (45%, n=595) of the respondents had been turned down for credit in the last 5 years. For those who had been turned down for credit, the most prevalent types of loans individuals had applied for were credit card loans (29.8%), mortgage loans (23.6%), "Other types of loans "(15%), car loans (11.6%) and home improvement loans (4.9%). For these same respondents, the most prevalent types of lending institutions individuals went to for loans were banks (43%), finance or loan companies (29%), other (12), credit unions (11%) and brokerages (4.3%). Of the "other types of lenders" individuals (n=50) indicated they went to for loans, most could be classified as credit card companies (34%), department stores (26%), or mortgage companies.

When victim pool consumers are turned down for credit it is mainly because of their credit histories. Of the 45% of all respondents who indicated they had been turned down or not given as much credit as they had applied for, more than three fourths or most (77%) were turned down for credit reasons and 23% were not given as much credit as they had applied for.

An important difference emerges when the two population subgroups of respondents are compared for outcomes on applying for credit. The victim pool had considerably more, 57% (n= 486), who had been turned down for credit compared to the general population, which reported only 23.5%. This is a statistically significant difference. Most individuals in the victim pool were primarily seeking credit card loans (27%) and mortgage loans (27%). The general population sought more credit card loans (42%) and other types of loans. For the 3rd and 4th types of loans (**Table 8**), the general population was seeking slightly more car loans, while individuals in the victim pool were seeking slightly more home equity and home improvement loans.

Table 8. Respondents' reasons for lenders turning them down for credit.

	Percentage of Respondents Reporting		
Reasons	Victim Pool	General Population	Overall
Credit problems	55	70	57
Debt to income ratio	21	7	18
Bankruptcy	5	11	7
Outstanding debt level	6	7	6
Previous foreclosure	<1	0	1
Self employed	<1	0	0
Collateral/property	<1	2	2
Equity	5	2	5
Unstable condition (divorcing, etc.)	<1	0	0
Don't know	5	0	4
Total number of respondents commenting	201	43	244

Consumers from both groups who had been denied credit were very similar in that a large percentage of each group, ultimately, were able to obtain the financing they were seeking. When asked if they were later able to obtain the full amount requested by reapplying to the same institution or elsewhere, about 44% of the victim pool and 40 % of the general population that had been turned down for credit, were able to get a loan. Just a little more than a third for each subgroup were unable to obtain the loan when they reapplied. For the victim pool and the general population pool, about a fourth (24% and 28%, respectively) of each had not reapplied for a loan.

For consumers who had been denied credit, most, from both subgroups had to go to another institution to get financing. Of those who were able to obtain the full amount of the loan by applying to the same institution or elsewhere (n=259), the majority for both sub groups (86% of the victim pool and 74% of the general population pool) applied elsewhere to other institutions to obtain loans. A significantly greater portion of the general population, 26%, as compared to 13.6% for the victim pool, successfully reapplied to the same institutional lender.

For those that had been turned down for credit and then successfully reapplied for a loan (n=252), the outcome had mixed results for cost. For the victim pool, just more than half (58%) indicated this was not a higher cost loan to them and 41% said it was a higher cost loan. For the general population, 64% reported the loan was not a higher cost loan to them and just over one third (35%) reported this was a higher cost loan. While there is a significant difference between sub groups, the trend points strongly in the same direction. For more than half of the respondents who had been turned down, the final loan they received did not have a higher cost than the one they originally applied for.

The victim pool and the general population had similar experiences as to why lenders had turned them down for credit. **Table 9** summarizes the coding of open-ended comments respondents gave when prompted for the reasons they were turned down or did not receive as much credit as they had applied for. For both groups, the foremost reason for being turned down was credit history problems. The second most reported reason for the victim pool was “excessive debt to income ratio” and thirdly, “outstanding debt” level. For the general population, the second most reported reason was “bankruptcy” and the third reason was “outstanding debt” level.

Respondents who had been turned down for credit and who later successfully obtained financing (n=255), were asked if they believed they were treated unfairly or discriminated against. For both the victim pool and the general population, most (76% and 70%, respectively) were of the opinion that they were treated fairly or were not discriminated against. However, some felt mistreated. Over both groups, 64 individuals made 95 comments[5] as to the reasons they considered their treatment unfair. Of those who indicated they were unfairly treated or discriminated against,

[5] It should be noted that some respondents tended to give multiple comments when probed and this is handled in Tables 9 and Table 10 by providing a percentage of comments.

Table 9. Respondents' reasons for considering lender treatment as unfair or discriminatory.

Reasons	Percentage of Comments: Victim Pool	General Population	Overall
Race	0	0	0
National origin/ethnicity	1	0	1
Gender	0	0	0
Age	0	1	1
Marital status	0	0	0
Parental status	0	0	0
Immigration status	0	0	0
Credit history	36	16	32
Issue with appraisal	1	0	1
Issue with excessive interest rate	1	0	1
Issue with lender practices	32	26	31
Other	29	52	33
Total number of comments	76	19	95
Total number of respondents	50	14	64

Table 10. Respondents' reasons why they thought they might be turned down for credit.

Reasons	Percentage of Comments: Victim Pool	General Population	Overall
Bankruptcy	8	6	7
Credit history	48	64	51
Outstanding debt	6	4	6
Debt to income ratio	17	7	15
Previous foreclosure	<1	0	1
Employment/unemployment issues	6	7	5
Collateral property	2	0	1
Equity	<1	0	1
Not understanding loans	2	<1	2
Amount of loan	2	<1	2
Personal factors: gender, age, race, marital status	2	6	3
Previously declined by another lender	3	3	3
Lender dishonest	1	0	1
Don't know	2	0	2
Number of Comments	237	70	307
Number of Respondents	223	68	291

about 24.9% were from the victim pool and 30.4% were from the general population, respectively. **Table 9** shows that both groups were similar in that “credit history” in the loan review or “problems with lender practices” were the most frequent opinions of why they considered themselves treated unfairly or discriminated against. Examples of respondent comments are given below:

- “Had a late payment seven years ago, but no late payments in recent history, but still turned down.”
- “I wasn’t given the loan because I don’t have stellar credit, I think that is unfair”
- “Everyone should have the same criteria for issuing credit, it should be a standardized formula. However, everyone is different so there should be more regulation.”
- “His view is that loan decisions are capricious”

About 22% of all respondents indicated that, in the last 5 years, they had thought about applying for credit at a particular place, but changed their mind because they thought they would be turned down. As shown in **Table 10,** more individuals in the victim pool (26.4%) had this fear than did the general population respondents (14%). For those who were inhibited in this manner, the most predominant reason they thought they would be turned down had to do with their own knowledge about their credit standing**.** For those respondents with this fear, more than 48% of the victim pool’s reasons (n=237) and 64% of the general populations’ reasons (n=70) were explained as having to do with their credit status. The next leading reasons given by both population subgroups were debt-to-income ratio and bankruptcies.

<u>Factors Influencing Lender Selection</u>

Respondents were asked to think about the financial institutions they do business with most often. Most (68.7%) respondents said they do business with banks most often. The next leading type of institution dealt with, for about one fourth of respondents, was credit unions. All other types of institutions asked about were reported by less than 7% as the type they dealt with most often. Less than 1% indicated they used payday lenders most often. These trends held consistently across both population subgroups with very little difference in type of institution selected.

After thinking about the lenders they used most often, respondents were asked to think about the factors important to them when making a major decision to borrow money. Their task was to rate the importance of each of 5 factors thought to influence loan decisions. Respondents were then asked to select the "one most important factor" for them personally when deciding to borrow money. Ratings obtained under both scenarios achieved the same relative order of factors as important. The largest differences between population subgroups are most discernable from the selection of the single most important factor and this is presented in **Table 11.** These ratings of factors serve as a description of the signals respondents say they respond to and use to judge and select loans. For both subgroups, interest rate was selected as the most important factor to the loan decision. There are significant differences in frequencies of respondents for each subgroup. The largest differences between subgroups occurred for interest rate and monthly payment amount factors. After selecting interest rate, victim pool consumers selected monthly payment amounts, willingness of the lender, and previous experience with the lender as factors (respectively) for selecting a loan when compared to the general population.

Table 11. Percentage of respondents rating factors for making loan decisions.

Factors	Percentage of Respondents Rating Factor As "One Most Important" Overall	Victim Pool	General Population	
The interest rate of the loan	54.7	49.4	64.4	***
The monthly loan payment amount	25.6	29.1	19.3	***
How close the lender is located to where you live or work	0.4	0	1.2	N.S.
Having previous experience with lender	7.5	8.7	5.4	**
Thinking about your personal credit history, the willingness of the lender or bank to loan you money	10.4	11.8	7.9	***

Chi Square Significance tests between population subgroups at the 95% confidence level indicated by: ***p$\leq$.01, ** p=$\leq$.05, *p$\leq$.10 . N.S.= no statistical significance in differences.

Aspects of Respondents' Most Recent Home Mortgage or Loan

The most important reason for obtaining the home loan for the victim pool was "consolidating credit card debt into (their) home mortgage" (35%).

In contrast, for the general population "purchasing a home" was the primary reason (>50%).

Respondents to the survey were asked questions about whether they own or rent their home. While the majority of respondents in both sub groups own their homes (95.4% of the victim pool, and 70.1% of the general population), the victim pool had significantly greater home ownership than the general population. Of the respondents owning homes (n=1168), most have mortgage loans on their home (96.4% for the victim pool and 69.2% for the general population). About 30% of the general population does not have any type of loan on their home.

More than half, or 55.7%, of the victim pool reported interest rates over 10% on their home loans.
Less than 1% of the home loans the general population reported were over 10%.

Respondents who had a mortgage (or another type of loan) on their home were asked why they took out this loan. Respondents in the victim pool were specifically prompted to think about their most recent loan as they were asked specific details about the loan. These consumers were significantly different from general population loan consumers regarding the reasons for the current home loan. As shown in **Table 12**, the most important reason for the home loan indicated by more than a third of the victim pool was "consolidating credit card debt into (their) home mortgage" (35%). In contrast, for about half of the general population consumers "purchasing a home was the primary reason for the loan.

Table 12. Rank order for percentage of respondents reporting primary reason for current home loan.

	Percentage of Respondents Reporting		
Reasons	Overall	Victim Pool	General Population
Refinance or rollover an earlier loan	30.6	28.2	38.4
Consolidate credit card debt into home mortgage	27.8	35.0	3.7
Purchase a home	19.9	10.9	50.0
Borrow additional money on your home mortgage	14.7	18.0	3.7
Other reasons	7.0	7.9	4.1
Number of respondents	1050	808	242

General population sample members with home loans were asked what type of lender provided the loan. For just more than half, banks were identified as the lender. The next most prominent (for 32%) type of lender was a mortgage company or broker.

Both groups were prompted as to the reasons why they selected this lender for this home loan. Again, the victim pool and the general population subgroups were significantly different as to the most important reasons for choosing this lender. About one third (32.7%) of the victim pool stated the most important reason was "it was easier to qualify for the loan" and about a fourth (24.2%) said they "had done business before with this lender". In contrast, the leading two reasons for selecting the lender of their home loan for the general population were "low interest rates" (37.2%) and "they had done business with lender before" (23.9%).

Some other indicators of consumer behavior were asked in questions regarding the home loan. Respondents were asked if they were paying off this loan ahead of schedule, on schedule, or behind schedule. About half (50.9%) of the victim pool and 61% of the general population were paying off their loans “on schedule”. Close percentages of each subgroup indicated they were paying off loans “ahead of schedule”, 37.4% and 38.4%, respectively. The largest differences occurred for the “behind schedule” response, with about 12% of the victim pool and less than 1% of the general population consumers indicating they were behind schedule.

To further compare how the populations fared on their home loans, consumers were asked details about loan terms. The average interest rate for the victim pool on this home loan was 12.3%, although responses ranged from 4% to 29.5%. More than half, or 55.7%, of the victim pool reported an interest rate over 10% on their home loans. The general population average interest rate of 6.1% was statistically significantly lower (t test value of 27.38 and probability of .00). This group had a reported interest rate range of 3.6% to 18%. Less than 1% of the home loans for the general population reported were over 10%. **Table 13** further displays the comparisons of specific loan terms asked about in the interview. As can be seen from this set of information, individuals in the victim pool were much more likely to have loans with terms that individually had high costs or hurt finances. The three terms causing the most damages to the victim pool were high interest rates (55.4%), prepayment penalties (31.8%), and charges for credit or life insurance (31.8%). The terms causing harm to general population loan consumers were life insurance (12.5%), disability insurance (11.7%), and loan prepayment penalties (7.3%).

Of all the loan factors measured, the one factor associated with the largest financial effect was interest rate. The victim pool was at a clear financial disadvantage on this factor as can be seen, with more than 55% having an interest rate greater than 10%. Even more cause for concern is that almost a quarter of individuals in the victim pool were paying rates in excess of 15%. Again, less than 1% of the general population with loans had this detrimental condition.

Consumers, who indicated they had a prepayment penalty on their loan, were asked when they first learned the loan had this term. Respondents from both subgroups were not statistically different in how they answered this question. For the victim pool (n=350), about half (57.4%) found out at signing of loan documents. For the rest, most indicated they learned it at a later time. This later time was referred to in numerous ways such as right after to years later, when refinancing, when selling, or when they tried to pay the loan off. Most of the general population members who had this condition on their loan found out when signing their loan documents.

The victim pool is set up for an even more ruinous financial picture, when compared to the general population, if multiple non-beneficial terms exist simultaneously on the loan. **Table 14** provides a summary of how much harm is accumulated for specific factors. This evaluation is limited to only those factors that were measured in the interviews with respondents. Harm units were assigned in a way that documents whether harm occurred or did not occur. Or, if it could be measured as occurring to a greater extent, more harm units were assigned. Consider, for example, individuals reporting higher than average interest rates: If they reported an interest between 10% and 15%, that aspect of the loan was assigned 1 unit of harm. If they reported an interest rate greater than 15%, it was assigned 2 units of harm. Comparatively, based on self-reports of loan terms, over 80% of the victim pool had harm associated with their loan and only 22.4% of the general population exhibited harm using this same evaluation criteria.

For the victim pool, 11.7% compared to less than1% of general population consumers stated they were paying off their loans “behind schedule”.

Almost 35% of the victim pool had more than one loan where the home was used for collateral. This is compared to 17.9% for the general population that reported this condition on their mortgage loan.

Assessment of Financial Behaviors on Current Mortgage Loan

Individuals in the victim pool were significantly different from the general population in their loan behavior and loan payment behaviors. Respondents were asked to self-report on their payment behaviors on their current mortgage loan. In terms of assessing the practice of positive loan payment behavior, just about a third of each population subgroup reported paying their loan off “ahead of schedule” (37.4% for the victim pool and 38.4% for the general population). And, about 51% of the victim pool and 61% of general population consumers stated they were paying off their loans “ahead of schedule”. The main difference between subgroups is in terms of the reporting of negative payment behaviors. For the victim pool, 11.7% compared to less than1% of general population consumers stated they were paying off their loans “behind schedule”.

When asked if they consulted with a professional such as a lawyer, financial advisor, or some other professional specifically about loan terms, 9.1% of the victim pool and 23.1% of the general population reported in the affirmative.

Another important financial behavior related to current mortgages that is distinctly and significantly different between the two populations was the tendency of individuals in the victim pool to have multiple loans that use their home as collateral. Almost 35% (n=283) of the victim pool had more than one loan where the home was used for collateral. This is compared to 17.9% (n=66) for the general population that reported this condition on their mortgage loan. The most frequent reason reported by the victim pool for the additional mortgage loans was to consolidate credit card debt (n=244). For the general population, the most reported reason for the additional mortgage loan was to borrow additional money on their home equity (n=47).

Taking out loans to pay off credit card balances is a financial practice that accelerates personal debt load and is considered a negative financial practice if done to excess. When asked about whether they had “ever” taken out a debt consolidation loan to pay off credit card balances, more than half (55.5%, n=483) of the victim pool had done so. Whereas, less than a quarter (16% (or n=56) of the general population had ever taken out credit card consolidation loans. The victim pool averaged 1.2 consolidation loans in the last 5 years, with the maximum number of consolidation loans for any individual being 8 loans. About 88% of the victim pool had one or more loans in the last 5 years and about 28% had more than two loans in the last 5 years. For the general population, for those that had ever taken out credit card consolidation loans, the average was less than 1 loan (.89). Of these, in the last 5 years, less than 17% (n=13) of general population consumers had two or more consolidation loans.

All loan consumers (n=1055) were asked if they consulted with a professional such as a lawyer, financial advisor, or some other professional specifically about loan terms. The two population subgroups are significantly different, with 9.1% of the victim pool and 23.1% of the general population reporting in the affirmative. For all respondents reporting they consulted a professional (12.3% or n=130), when open-ended survey comments are coded, the most prevalent type of professional they consulted was a financial advisor or mortgage broker (45%). The next most prevalent advisors were lawyers (22%) and bank/lender personnel (9%). It is interesting to note that few consumers have a tendency to consult with professionals. And when they do gain consultation, the professionals consumers accessed are in the lending industry rather than outside to evaluate legal terms of loan contract. From survey responses it is not possible to ascertain whether the professional consulted is actually an employee or representative of the lender the loan was from or whether it was the person they dealt with at the lending institution.

Table 13. Percentage of respondents reporting specific types of loan terms on current loan.

	Percentage of Respondents Reporting			
Loan Terms	Overall	Victim Pool	General Population	
Interest rates:				
0-10%	57.5	44.3	98.6	***
>10% to 15%	24.4	32.0	0.9	
>15% to 29.5%	18.1	23.4	0.5	
Adjustable rate mortgage:				
Yes	15.7	16.3	13.8	NS
No	84.3	83.7	86.2	
Payment includes property tax/homeowners insurance:				
Yes (taxes only, insurance, only or both)	26.8	15.1	65.8	***
No	73.2	84.9	34.2	
Payment includes credit insur., life insur, or both:				
Yes, (credit only, life only, or both)	27.7	31.8	13.8	***
No	72.3	68.2	86.0	
Loan has prepayment penalty:				
Yes, (has prepayment penalty)	37.5	46.8	7.3	***
No	62.5	53.2	92.7	
Loan has balloon payment::				
Yes	6.2	7.1	0.8	**
No	93.8	92.9	96.6	
Other loans use this property for collateral:				
Yes	29.8	34.9	17.9	***
No	70.2	65.1	82.1	
Number of respondents [a]	1031	792	239	

Chi Square Significance tests between population subgroups at the 95% confidence level indicated by: ***p≤ .01, ** p=≤ .05, *p≤ .10. N.S.= no statistical significance in differences.

[a] The number of respondents may vary on each question as not all respondents provided answers when asked.

Table 14. Summary of mortgage terms that are classified as harmful or non-beneficial[1].

Loan Terms	Units of Harm Assigned	Percentage of Respondents with Calculated Level of Harm Units: Overall	Victim Pool	General Population	
Interest rates:					
0-10	0	51.7	36.9	97.7	***
>10% to 15	1	39.6	51.5	2.34	
>15% to 29.5	2	8.8	11.6	0	
Payment includes life insur,					
Yes, (life only)	1	25.5	29.5	12.5	***
No	0	74.5	70.5	87.5	
Payment includes disability insur					
Yes, (disability only)	1	21.7	24.9	11.7	***
No	0	78.3	75.1	88.3	
Loan has prepayment penalty:					
Yes, (has prepayment penalty)	1	37.5	46.8	7.3	***
No	0	62.5	53.2	92.7	
Loan has balloon payment::					
Yes	1	6.2	7.1	3.4	
No	0	93.8	92.9	96.6	
Summary of Total Harm Units :					
0 harm		32.1	18.7	77.6	***
1 harm		26.0	30.3	11.2	
2 harms		25.7	30.6	9.1	
3-5 harms		16.2	20.4	2.1	

[1] A level of harm is calculated for each respondent based on their report of each of the individual loan terms for their current mortgage with their current lender if the respondent is a member of general population sample. For the victim pool the level of harm is calculated the same, but the loan is associated with the lender Household or Beneficial, Inc.

Chi Square Significance tests between population subgroups at the 95% confidence level indicated by: ***p≤ .01, ** p=≤ .05, *p≤ .10. N.S.= no statistical significance in differences.

3.0 DISCUSSION AND CONCLUSIONS

Purpose. A key question in this study was "What do consumers know about finances and does it matter when entering into agreements with lenders? Answering this question will elucidate whether the idea of developing a financial education program is a good one and whether this is a good use of resources. Financial literacy as a concept is not readily defined; it cannot be measured directly. A main intent in this research was to measure and describe the level of financial competency of individuals in the survey populations. A second goal was to compare in the population subgroups levels of financial literacy or competency and to determine if this was related to their mortgage outcomes.

Reasons for integrating focus group and survey findings. In this research effort, it was necessary to integrate survey and focus group findings to more completely ascertain why individuals were susceptible. Focus group results complemented and supported survey findings by providing more depth to information on mortgage experiences and how individuals interacted with particular lenders. The focus group results provided even more evidence that victim pool consumers are in need of financial education. In the survey interviews, the goal was accurate measurement on specific items and it was not cost effective to probe too deeply on a topic; whereas, in the focus group discussions, several individuals were able to comment on the same topic and explain how their situation might have been similar or different to others in the group. It was through the focus groups that the nuances of the mortgage situation were revealed; this provided details not captured in survey interviews.

Justification for use of scores. Financial knowledge, experiences, and behaviors are linked in a relational way. Financial experiences and behaviors together contribute to financial knowledge levels and gains in competency. Key to this assumption is the idea that with more experience and education, individuals become more sophisticated and competent in their financial dealings. The extent to which an individual demonstrates financial knowledge, more financial experience, and more positive protective type financial behaviors predicts the extent to which they would be more financially literate and more effective in their financial management. Since financial literacy is not directly measurable, an alternative is to use proxy measures. In this study, scores or indices were devised for knowledge level, experience levels, positive and negative financial behaviors. Thus, from the survey responses, scores were calculated which indicated specific aspects of financial competencies. Taken together, these scores represented the level of financial literacy that can be measured for individual respondents who participated in this study. These scores were further aggregated over the population subgroups for comparative purposes.

Discussion of knowledge items. In the knowledge test, questions answered correctly or incorrectly, provide insight into the deficit the general population and the victim pool had in financial knowledge. Results showed that the financial score created from the test questions in the interview varied across respondents. About 36% of the respondents answered 7 or fewer of the 12 questions correctly; these are the least knowledgeable individuals in this study. The financial score and the financial score ranges were significantly different between the two population subgroups, and can be used to evaluate the relationships of knowledge to other measured variables that are crucial to explaining the differences between individuals in their financial outcomes and in their loans.

Profiling respondents based on knowledge score. Two questions that were missed most often were measures of knowledge relative to bond markets and mutual funds (missed by 70% of the victim pool and 57% of the general population). It is quite tempting to say that these may be unfamiliar markets and investments to many people. While these two questions may seem irrelevant to determining individuals' knowledge relative to making mortgage loan decisions, these along with the other questions in the set of incorrectly answered questions, separates the "more financially knowledgeable" from the "less financially knowledgeable" for both population subgroups. The other questions frequently missed (Table 2) had to do with the financial topics of: reducing risk in investments, fees and costs of financial services products, understanding financial market operation and outcomes, and compound interest. Together these concepts represent the economics of financial markets. These questions taken together are relevant to measuring the basic knowledge needed by consumers to participate in financial markets and to having a perspective of financial market operation.

Lack of specific knowledge a concern. A key aspect of defining a financial literacy program to help individuals harmed by or at risk for predatory lending should be to center on the most basic skills needed to participate competently in financial markets once it is determined what skills are missing or what types of financial practices are faulted. From this survey, of the knowledge questions answered incorrectly, the concept found lacking that is most troubling, has to do with the concept of compound interest. In focus groups, individuals also told us they didn’t understand loans and interest rates. Compound interest as a financial factor is fundamental to understanding how, when interest rates change, money saved or invested is impacted and how it can generate wealth. It also serves as the basis of knowing the cost of borrowed money, loan payment structure, the time value of money, and the real cost of an asset over the lifetime of any loans used to acquire assets. If consumers lack knowledge of compound interest, they are naïve to evaluating and reading one of the most important market factors when involved with lenders. They are unable to tell whether the decision to invest money will work for them or not. They potentially enter into loan agreements without understanding how much they are paying for borrowed money or the opportunity cost of the money they are investing.

Role of general education. The role of general education level-- as opposed to financial knowledge--in individual competency was also tested in this study. Cursory bivariate comparisons of survey data showed that respondents who had at least one college degree were less likely to have a loan with harmful terms or to exhibit risk behaviors. And, conversely, individual respondents with less than a college degree were more likely to have loans with more harmful terms, exhibit higher levels of risk behaviors, exhibit less positive protective behaviors and have less knowledge. These relationships held across both population subgroups in correlation tests. Attainment of at least one college degree is associated with more positive financial outcomes and served as a protective factor for individuals evaluated.

Role of financial experiences in competency. The victim pool, like the general population, had a considerable amount of financial experiences and demonstrated to a large extent, financial experience. They reported "middle of the road" levels of experiences and protective behaviors. The victim pool exceeded the general population in having experiences in credit and loan markets, refinancing loans, consolidating credit card debt, and in taking out home improvement loans. However, the victim pool was very different from the general population in the extent of reporting experiences for long term planning, the ways they invest, the way they save, the way they invest for retirement, and the complexities of their financial investments. The victim pool tended to have a tendency to spend more now and save less for later. The general population, in strong contrast, had significantly more diverse financial experiences and exhibited more protective behaviors. This would seem to demonstrate more effective money management exemplified by more reported savings and more complex retirement investing practices for general population respondents.

Negative behavior and summative nature of scores towards literacy. Carrying the analysis of behaviors and experiences one step further by looking at the extent of participation in non-protective behaviors, it can be seen that the victim pool had a higher rate of risky behavior when compared to the general population. Most significant to this difference in terms of risk were the "taking of cash advances on credit cards" and "use of payday lenders for short term loans". If financial experiences and behaviors are additive relative to their positive or negative classification, then the victim pool was considered less financially literate than the general population.

Role of negative behaviors. Adding to this body of evidence toward the need for a financial literacy program is that many individuals in the victim pool engaged in negative, risky, or non-protective behaviors. They are very different from the general population in this regard. During their current loan situations a significant portion of the victim pool reported they had taken out multiple credit consolidation loans to pay off credit card balances and taken out more than one loan that used their home or property as collateral. A significant portion of individuals in the victim pool were in the position of being ‘behind schedule in paying off mortgage loans.

The degree to which risky financial behaviors were undertaken by some survey respondents would be evidence that these individuals are not gaining in financial literacy and are not seeming to learn or respond to the financial consequences of their actions. Consequently, the demonstrations of protective versus risky behaviors are manifestations of abilities and competencies for money management. Successful personal money management helps reduce risk of financial loss and reduces the likelihood of extraneous events (such as job loss, disability, or economic downturns) causing sudden financial ruin.

Focus group and survey findings complimentary. Survey responses and the focus group findings together exemplify that the victim pool and general population respondents who are less knowledgeable don’t understand interest rates, loans, or how loans work. This study found knowledge score overall and knowledge level on specific items important to individual financial experiences and outcomes in mortgage loan markets in Washington. Less knowledge on financial knowledge items, less financial experiences, less frequency of protective financial activities, and engagement in “risky” or negative financial behaviors compositely measures financial literacy and explains the variation in mortgage experiences with lenders and the occurrence of engaging in loans with less beneficial or more financially harmful terms.

Relationship of multiple measures indicates consumer ability to respond. Other measures from the survey and comments in focus groups also suggest that many individuals in the victim pool were naïve and lacking in competency even though they had considerable financial experience and exhibited a moderate level of positive financial behaviors. Naïve individuals lack the skill to evaluate whether they can afford a particular loan or evaluate if they are improving their financial circumstances. Relative to saving decisions, these consumers lack appreciation of how the main factor, compounding and interest, grows their money. Relative to loans, these consumers didn't seem to understand how interest rates relate to what they can afford. Nor did they know how much of a premium in interest rate percentage points they should consider and accept as a tradeoff for their poorer credit rating. Thus, for less knowledgeable individuals, it is questionable how much interest rates can serve as a signal or stimulus to modify behavior or to make prudent financial decisions. For mortgage decisions, it is questionable whether less knowledgeable individuals are responsive to interest rates levels as signals to accept or reject a loan or for determining whether they are getting a good deal.

Towards a financial literacy program---learning styles, useful tools. The study results of knowledge score and behavior scores strongly supports the need for an education program that teaches financial concepts to consumers and provides mechanisms that help consumers make informed decisions about engaging in loans. Consumers have described "individual based learning" modes as the most preferred way to learn. In focus groups and in the survey, respondents have told us that they don't understand how interest on loans works, and that at the time they entered into loan agreements they didn't know what they were getting into financially. Survey and focus group findings for the victim pool showed interest rate was the loan factor most associated with harm. Interest rate as a factor in loan decisions is not well understood by many respondents. With these results in mind, the development of useful types of tools might include: an agency-sponsored computer website hosting a loan scenario calculator, consumer checklists, and guidelines for accepting and rejecting loans. Consumers accessing such tools could enter loan terms, home appraised value, and their income into the calculator and it could display relative loan information over time such as monthly, yearly, and total interest payments, monthly, yearly and total payout towards principal. Specifically, the development of guidelines for the amount of fees that should be expected and guidance on thresholds of monthly payment to monthly income might prevent consumers from entering into loans they can't afford.

What was learned in focus groups. In particular, in focus groups we learned how victim pool consumers connected with lenders and how they made the decision that this was the best loan for them. Many victim pool consumers responded to either a direct solicitation that came through the mail as an advertisement or to a telephone call from an interviewer representing the mortgage lender. Some participants cashed checks that were sent to them in the mail from the lender for an automatic loan. Others sought out the lender as they had a previous loan or a good experience with the lender. Still others found themselves with this lender because their loan had been sold to this company. Profound to this connection is that individuals in the victim pool were customers to the lender. The lender's contact was posed to make customers aware loans were available and that they were eligible for a new loan or a refinance. From what participants tell us we deduce that the lender used customer lists and personal customer knowledge to select and personalize the contact. Some consumers were told that the lender had lower cost or better interest rate loans available compared to the consumer's current loan. This type of contact by the lender proved to be effective, as many focus group participants indicated they followed through to further contact the lender at local offices and enter into loan transactions.

Many in the victim pool stated they were solicited because they were customers. This along with respondents telling us the lender knew they were desperate and had credit problems, raises the question of lender accountability. Lenders have detailed information on customers, and a history of customer repayment of loans—this provides for a fairly accurate picture of customer financial ability. Together this information is predictive of whether individuals can successfully repay the loans. One of the most common features grouping individuals in the victim pool was their own rating of themselves as having compromised credit and this being associated with loans that had non-beneficial or harmful terms.

Consumers shopping for loans and barriers. Another question of interest was whether consumers tried to comparison shop for loans. Many victim pool consumers told us (in focus groups and during survey interviews) that they tried to comparison shop, but they found banks and some lenders unwilling to lend to them because of poor credit histories or other circumstances with their financial status. Still others told us they were desperate and needed the money in a hurry. A few related that they felt their credit scores declined the more they approached lenders who then checked their credit. In the end, consumers went with lenders who would work with them. The description of the loan market as portrayed by victim pool consumers is a market that is very limited and one that has barriers. Thus, it becomes quite apparent that for individuals who face scarce access to credit and are in a state of desperation, an opportunistic appeal from a lender that they personally are eligible for available loans with lower costs or better terms, proves quite tantalizing and irresistible.

Interpretation of attitudes. In focus group dialogues and survey comments, participants told us that they believed lenders and lender employees knew of their desperation and used this knowledge to take advantage of them. Others articulated they were treated unfairly or discriminated against because of their credit standing. This notion may not be totally unfounded when it is considered that the lender has access to customer lists with detailed customer loan information and customer characteristics to select and screen individuals for solicitation. Taking together the factors learned in the survey that describe consumers' state of mind (poor credit, fear of turn down, and desperation) it is not hard to imagine a possibility of lender(s) using credit status as a main factor for selecting individuals for solicitation. However, it needs to be kept in mind that, in focus groups, individuals in the victim pool readily admitted they voluntarily followed-up with lenders after the solicitation or contact and entered into loans. Some say they took out loans they didn't really need. This suggests these consumers are primarily reactionary instead of planning in their finances. They are not aware of their own personal vulnerabilities and lack the knowledge needed to keep from being susceptible in engaging in loans with disadvantageous terms.

Attitude is a factor that drives an individual's demeanor and state of mind in making decisions during transactions. Attitude in combination with financial knowledge and behaviors may be synergistic in driving outcomes. It is clear from survey results that individuals in the victim pool were in a disadvantaged position --relative to their state of mind--when compared to the general population. They had compromised attitudes (lower confidence, feelings of too high of a debt load, and feelings of desperation), lower financial knowledge, and less protective behaviors. Individuals in focus groups also said they were desperate and were of the mind that lender employees knew this and used it to the lender's advantage in the loan agreement transaction. Together these factors interact to further show deflated abilities and possibly reduced competency of individuals in the victim pool to interact effectively with lenders and protect themselves.

Integration of learning preferences and characteristics needed in literacy program. An important aspect of the feasibility of a financial literacy program is to determine how best to offer a financial literacy program to the public and to those who need it. An important consideration is what venue would be most viable? Even though almost a third of survey respondents chose the Internet or computer programs as the way they liked to learn, this style might not work for everyone. The survey responses show consumers as split in how they like to learn. About half liked individual-based modes and the other half liked group-based modes of learning. Consumers might demonstrate more interest and follow through with educational programs if components are offered and presented in a variety of modes. This suggests educational outcomes may be achieved at higher rates and be more effective if consumers have a choice in how they learn them. There are two other important characteristics of an effective financial educational program: allowing participants to navigate programs at their own pace, and permitting them interaction in ways they prefer.

Lack of consumer awareness to the potential for harm and to the magnitude of potential harm resulting from loan terms specified by the lender, is an important aspect of susceptibility for DFI to consider. Taken together with the victim pool's tendency for lower indicators of financial literacy, consumers are still at risk with out a campaign to raise public awareness to this problem. The study results show that a literacy program would be very beneficial, especially to individuals in the victim pool. However, there remains concern over victim pool consumers' lack of responsibility and effort, as demonstrated in this study, and whether they would actually participate in a financial literacy program if one were offered. DFI's challenge with these study findings and going forward with an educational program will be to motivate participation.